

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 /026 W

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P 080030Z OCT 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 6555

INFO AMEMBASSY QUITO PRIORITY

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 11071

EXDIS

QUITO FOR ACTING SECRETARY INGERSOLL AND ASSISTANT SECRETARY
ROGERS

E.O. 11652: GDS

TAGS: ENRG EGEN ETRD UNCTAD VE

SUBJECT: VENEZUELAN RESPONSE TO NOTE VERBALE OF OCT. 29

1. FOREIGN MINISTER SCHACHT ASKED ME TO CALL AT 5 P.M. TODAY. HE HANDED ME A CONFIDENTIAL MEMORANDUM OF FIVE PAGES IN RESPONSE TO THE NOTE VERBALE I HAD LEFT WITH HIM ON OCTOBER 29. WE SHALL SEND IN A TRANSLATION TOMORROW BUT IN BRIEF, IT REJECTS OUR CONTENTION THAT THE RETROACTIVE INCOME TAX IMPOSED ON FOREIGN OIL COMPANIES IN VENEZUELA NEED HAVE BEEN PASSED ON TO THE U.S. CONSUMER BECAUSE THE "EXCESSIVE PROFITS" OF THE COMPANIES SHOULD HAVE PERMITTED THEM TO ABSORB PRACTICALLY ALL OF THE \$400 MILLION OF RETROACTIVE TAX. THUS, THE NOTE GOES ON TO SAY, QUOTE THE VENEZUELAN GOVERNMENT FULLY SHARES THE CRITERION EXPRESSED BY OPEC THAT AN INCREASE IN THE FISCAL PARTICIPATION OF THE MEMBER COUNTRIES SHOULD NOT BE PASSED ON TO CONSUMERS SINCE SUCH AN INCREASE CAN BE ABSORBED BY THE TRANSNATIONAL PETROLEUM COMPANIES FROM THEIR EXCESSIVE EARNINGS. IT IS UP TO THE GOVERNMENTS OF THE CONSUMING COUNTRIES TO CREATE FISCAL MECHANISMS ADEQUATE TO PREVENT SPECULATION AND, THROUGH THE REDUCTION OF THEIR INTERNAL FEDERAL, STATE, AND LOCAL TAXES, TO PREVENT INJURY TO THE CONSUMERS. UNQUOTE

2. THERE IS MUCH MORE IN THE MEMORANDUM OF A HIGHLY SIMPLISTIC
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ARITHMETIC SUCH AS THE ALLEGATION THAT DURING 1973 WORLD

INFLATION WAS 12 PER CENT AND IN 1974 14 PER CENT WHEREBY "IN CONSEQUENCE ONLY TWO PER CENT OF WORLD INFLATION CAN BE ATTRIBUTED TO THE INCREASE IN THE PRICE OF PETROLEUM SINCE JANUARY 1, 1974."

3. THE IMPORTANT PART OF THE MEMORANDUM COMES IN THE FINAL PARAGRAPH:

QUOTE THE INTERNATIONAL COMMUNITY AND ESPECIALLY THE DEVELOPING COUNTRIES HAVE BEEN INVOLVED FOR YEARS IN AN UNENDING SEARCH FOR AN INTERNATIONAL FABRIC WHICH IS JUST AND HARMONIC. THE GOVERNMENT OF VENEZUELA FIRMLY REITERATES ITS FRANK DISPOSITION TO COOPERATE TOWARD THAT OBJECTIVE AND RENEWS ITS CONVICTION THAT THIS WILL ONLY BE POSSIBLE IN SO FAR AS THERE IS CONSIDERED SIMULTANEOUSLY AND JOINTLY, IN A FORUM OF AMPLE REPRESENTATION (REPRESENTATIVIDAD) ALL THE PROBLEMS RELATIVE TO THE PRICES OF RAW MATERIALS, RENEWABLE OR NONRENEWABLE, TO COMMERCE IN MANUFACTURED GOODS AND IN CAPITAL GOODS, TO THE TRANSFER OF TECHNOLOGY AND TO THE UNSTABLE SITUATION OF THE INTERNATIONAL MONETARY SYSTEM. UNQUOTE

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C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 11071

EXDIS

QUITO FOR ACTING SECRETARY INGERSOLL AND ASSISTANT SECRETARY ROGERS

4. THROUGHOUT OUR CONVERSATION, WHICH WAS QUIET AND CORDIAL, THE MINISTER MADE NO REPEAT NO REFERENCE TO PRESIDENT PEREZ'S XENOPHOBIC MESSAGE TO THE WORLD FOOD CONFERENCE, ALTHOUGH THE FINAL PARAGRAPH OF HIS MEMORANDUM IMPLICITLY RESTATED SOME OF THE THEMES INVOKED BY THE VENEZUELAN PRESIDENT. I AM INCLINED

TO BELIEVE THEREFORE THAT ALTHOUGH OUR NOTE VERBALE OF OCTOBER 29 MAY HAVE HAD A CATALYTIC EFFECT IN SETTING OFF PEREZ IN HIS EPISTLE TO THE PHILISTINES IN ROME, HE ALSO HAD IN MIND APPEALING TO A WIDER AUDIENCE IN LATIN AMERICA AND IN DEVELOPING COUNTRIES AND WAS SEEKING IN SUBSTITUTE FORM TO ADDRESS THE WORLD FOOD CONFERENCE WHICH AT ONE TIME HE HAD HOPED TO APPEAR BEFORE IN PERSON.

5. I ASKED SCHACHT WHAT HIS GOVERNMENT HAD IN MIND WHEN IT REFERRED TO A DESIRE TO CONSIDER THE LIST OF PROBLEMS CITED IN HIS FINAL PARAGRAPH IN A "FORUM OF AMPLE REPRESENTATION." HE SAID VENEZUELA HAD NO PARTICULAR FORUM IN MIND AND DENIED SPECIFICALLY (STATE 243653), IN RESPONSE TO MY QUESTION, THAT HE WAS THINKING OF THE PROPOSED DAKAR CONFERENCE IN FEBRUARY OF NEXT YEAR OF NON-ALIGNED AND OTHER LDC'S.

6. I LIKEWISE INQUIRED, HAVING SEEN PRESS REFERENCES TO THE INITIATIVE OF PRESIDENT GISCARD TO CONVOKE AN EVENTUAL CONFERENCE OF OIL-PRODUCING AND OIL-CONSUMING COUNTRIES, IF THIS WAS THE
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FORUM VENEZUELA HAD IN MIND. SCHACHT INSTANTLY REPLIED IN THE NEGATIVE AND SAID HIS GOVERNMENT HAD NO REPEAT NO ENTHUSIASM FOR THE FRENCH PROPOSAL.

7. WE CONCLUDED BY AGREEING THAT THERE WAS NO ADVANTAGE TO CONTINUE EXCHANGING STATISTICAL ARGUMENTS ON THE PRICE OF OIL AND IMPORTED MANUFACTURED GOODS AND THAT ON THE CONTRARY IT WOULD BE MORE PRACTICAL IF WE COULD SIT DOWN TOGETHER AND HAVE OUR RESPECTIVE EXPERTS CLEAR AWAY THE UNDERBRUSH OF ARGUMENT SO THAT AT THE MINISTERIAL/AMBASSADORIAL LEVEL WE COULD GET DOWN TO THE BRASS TACKS OF A MODUS VIVENDI WHICH WOULD BE BENEFICIAL TO BOTH COUNTRIES.

8. I SAID THIS INTERCHANGE HAD AT LEAST BEEN HELPFUL IN SOME-WHAT CLEARING THE AIR AND THAT IT CAME AT AN OPPORTUNE TIME SO FAR AS I WAS CONCERNED BECAUSE A CHIEF OF MISSION CONFERENCE HAD BEEN SCHEDULED IN WASHINGTON FOR THE FIRST WEEK IN DECEMBER AND THIS WOULD AFFORD ME THE OPPORTUNITY TO DISCUSS THESE MATTERS WITH HIGH OFFICIALS IN MY GOVERNMENT.
MCCLINTOCK

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